



REPORT TO COUNCIL City of Sacramento

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Staff Report
December 13, 2005

Honorable Mayor and
Members of the City Council

Subject: Reimbursement Resolution for the Community Reinvestment Capital Improvement Program (CRCIP)

Location/Council District: Citywide

Recommendation: It is recommended that the City Council by resolution:

- Adopt a reimbursement resolution to permit the reimbursement of certain expenditures for various Community Reinvestment Capital Improvement Program ("CRCIP") projects from proceeds of a future City of Sacramento ("City") debt issue.

Contact: Thomas P. Friery, City Treasurer, 808-5168
Janelle Gray, Senior Debt Analyst, 808-8296

Presenters: Thomas P. Friery and Janelle Gray

Department: City Treasurer's Office

Division: City Treasurer's Office

Organization No: 0900

Summary: This report recommends that the City Council adopt a Reimbursement Resolution to use proceeds of a City debt issue to permit the reimbursement for expenditures incurred and paid up to three years prior to the actual sale of bonds for various projects of the CRCIP and the City's Capital Improvement Program (CIP) 2005-2010.

Under current Federal guidelines and regulations, without a Reimbursement Resolution, the City is limited to reimbursement for capital expenditures and/or other qualified expenditures paid no more than 60 days prior to approval of the bond financing. With the adoption of a Reimbursement Resolution, the City can reimburse itself for any qualified expenditure 60 days prior to the date of adoption of the Reimbursement Resolution, but never more than three years after the original expenditures. However, if a project is completed and placed in service the financing needs to occur within 18 months of project acceptance.

Furthermore, by identifying the potential projects and/or programs to be included in the City's CRCIP and City's CIP 2005-2010, the City is provided the greatest flexibility of maximizing its cash flow by substituting permitted projects if any of the funded projects are unable to be completed.

This resolution is adopted for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations and **it does not bind the City to make expenditure, incur any indebtedness, or proceed with any of the CRCIP projects.**

Committee/Commission Action: None.

Background Information: On October 11, 2005, the City Council authorized the City Manager to identify potential projects and directed the City Treasurer to structure potential debt financing alternatives for the CRCIP projects. The potential projects and financing alternatives were then to be presented to City Council for consideration.

Traditionally, the City uses tax-exempt bonds to finance capital projects such as the CRCIP projects. With the guidelines and regulations imposed by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Tax Reform Act of 1986 (TRA), it can be potentially problematic for some of the identified potential projects to meet the project readiness requirement imposed by TEFRA and TRA guidelines and regulations.

As background to municipal debt financing, prior to the early to mid 1980's the Federal government and the U.S. Securities Exchange Commission did not stringently regulate issuance of municipal bonds. Consequently, there was extensive local use of tax-exempt municipal bonds that resulted in abuses by some local governments. Some borrowed money tax-exempt and reinvested for a profit i.e. borrowed at 6% and reinvested at 10% for 4% tax-exempt profit (arbitrage); some used the proceeds for private sector businesses (private activity); and others used proceeds to fund authorized capital projects, but in some cases did not complete the projects (hedge bonds and/or expend 85% of proceeds authorized within three years). To address these abuses, the Federal government enacted various regulations including TEFRA and TRA. These guidelines and regulations precluded municipalities from hedge fund activity, arbitrage, imposed requirements that 85% of the net proceeds are expended in three years, and placed limitations on private activity, which limited the use of tax-exempt proceeds to 5% (payment) or 10% (usage) of tax-exempt financed projects.

Through the process of developing a priority list in the CRCIP for City Council approval, it became evident that several projects under consideration had challenges in regards to project readiness required by TEFRA and TRA guidelines and regulations. Adoption of the Reimbursement Resolution will alleviate some of these challenges and provide flexibility and benefit to the City by:

1. allowing reimbursement of project expenses incurred up to:
 - a. 60 days prior to adoption of the Reimbursement Resolution, or
 - b. within 3 years after the original payment, or
 - c. within 18 months after payment is made or project is placed in service;
2. providing flexibility to assign tax-exempt bond obligation to previously paid for projects and releasing bond proceeds for any authorized municipal purpose.

To conclude, this report recommends that in accordance with Section 1.150-2 of the Treasury Regulations, City Council adopt a Reimbursement Resolution to use proceeds of City debt issue to permit the reimbursement for expenditures incurred for various CRCIP projects and 2005-2010 Capital Improvement Program (CIP) projects.

Financial Considerations:

The adoption of a Reimbursement Resolution does not entail any financial costs to the City and does not bind the City to make expenditure, incur any indebtedness, or proceed with any of the CRCIP projects.

The Reimbursement Resolution identifies possible projects to be funded with bond proceeds to include those that will be approved by City Council under the CRCIP, and for added flexibility the City's CIP 2005-2010. In general, the City's CIP program has a \$300-\$400 million five-year budget and it is anticipated that the City Council will approve an estimated \$70 million of projects or more under the CRCIP program. While the City has not had a financing that funded all of CIP, to provide the greatest flexibility to the City, the Reimbursement Resolution has set the debt obligations in an amount not expected to exceed \$200 million. This amount is deemed to be reasonable given the anticipated amount of the projects that may be bond financed overtime.

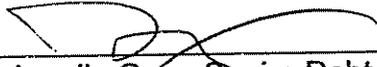
The City's financial benefits of adopting a Reimbursement Resolution include: permitting the City to reimburse itself for prior expenditures; allowing flexibility by substitution of approved projects if one does not go thru; and meeting the requirement of Federal guidelines and regulations.

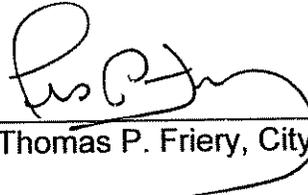
Environmental Considerations: None.

Policy Considerations:

The proposed reimbursement of expenditures is in accordance with the City's Strategic Plan and the sustainable budget philosophy that the City Council implemented.

Emerging Small Business Development (ESBD): None.

Respectfully Submitted by: 
Janelle Gray, Senior Debt Analyst

Approved by: 
Thomas P. Friery, City Treasurer

Recommendation Approved:

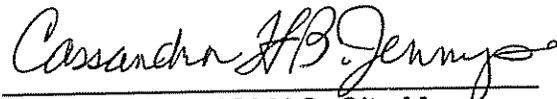

ROBERT P. THOMAS, City Manager

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RESOLUTION NO. CC2005-____

Adopted by the Sacramento City Council

December 13, 2005

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SACRAMENTO TO REIMBURSE CERTAIN EXPENDITURES FOR VARIOUS COMMUNITY REINVESTMENT CAPITAL IMPROVEMENT PROJECTS FROM PROCEEDS OF INDEBTEDNESS

BACKGROUND

- A. The City Council of the City of Sacramento (the "City") has determined to implement a Community Reinvestment Capital Improvement program for grants, the development, planning, design, acquisition and construction of various capital improvements and infrastructure Projects and related facilities and betterments and the City of Sacramento Capital Improvement Program 2005-2010 approved by the City Council (collectively, the "Projects"); and
- B. The City expects to pay certain expenditures (the "Reimbursement Expenditures") in connection with the Projects prior to the issuance of revenue bonds or other debt obligations to finance costs associated with the Projects on a long-term basis; and
- C. The City reasonably expects that debt obligations in an amount not expected to exceed \$200,000,000 will be issued and that certain of the proceeds of such debt obligations will be used to reimburse the Reimbursement Expenditures; and
- D. Section 1.150-2 of the Treasury Regulations (the "Treasury Regulations") requires the City to declare its reasonable official intent to reimburse prior expenditures for the Projects with proceeds of a subsequent borrowing;

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. That the foregoing recitals are true and correct.

Section 2. That this resolution is adopted solely for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations. This resolution does not bind the City to make any

expenditure, incur any indebtedness, or proceed with the Projects.

Section 3. That the City hereby declares its official intent to use proceeds of indebtedness to reimburse itself for Reimbursement Expenditures.

Section 4. That this resolution shall take effect from and after its adoption.

PASSED AND ADOPTED by the City Council of the City of Sacramento on December 13, 2005, by the following vote:

Ayes:

Noes:

Abstain:

Absent:

APPROVED:

Mayor Heather Fargo

(SEAL)

ATTEST:

City Clerk